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SUBJECT: BLACK GOLD: PETROLEUM RESOURCES IN ETHIOPIA

¶1. SUMMARY: The Government of Ethiopia (GoE), through the Ministry of Mines and Energy, is actively seeking investment and exploration in the oil and gas sector. While to date there are no proven reserves of oil or gas, exploration is taking place in several areas of the country with promising geology. If petroleum resources are located, the GoE can reap financial benefits from exports. END SUMMARY.

¶2. Ethiopia does not have proven oil resources. There are indications that there may be some oil and possibly significant natural gas resources in five sedimentary basins throughout the country: Mekele (Tigray); Ogaden (Somali State); Abay (northern Oromo and southern Amhara); Metema (Amhara); Gambella; and the South Rift Valley. The greatest concentrations of petroleum resources are thought to be in the Ogaden basin.

HISTORY

¶3. Dr. Ketsela Tadesse, Petroleum Operations Department, Ministry of Mines and Energy told emboffs that petroleum exploration in Ethiopia dates to the 1950's. Exploration has been sporadic, delayed and hampered by global fluctuations in prices and changes in government/instability in Ethiopia. Also, the geology in Ethiopia is complex, making it more difficult to locate and extract any resources that are eventually found. Current high prices are driving companies to less-than-perfect places with potential for exploration.

¶4. In the 1970's, US company Tenneco performed geologic survey and drilling work. Tenneco made two discoveries of gas in the Ogaden, but the discoveries were not particularly attractive. Tenneco left Ethiopia after the Communist revolution. Following the rise of the Communist Dergue regime, the Soviet Petroleum Exploration Expedition (SPEE) entered the Ogaden and focused mainly on Tenneco's two discoveries. SPEE drilled several wells, especially in the Calub and Hilala fields and reported good indicators for oil in Hilala. SPEE departed Ethiopia when the Dergue fell in 1991.

¶5. Following the end of communist rule, Ethiopia decided to market its oil and gas potential globally. Initially, the GoE reserved blocks with the most potential for government ownership and rented them to exploration companies. In the early 1990's, two US companies, Hunt Oil and Maxis Energy entered the Ogaden. Maxis departed after two years. Hunt stayed for about 8 years and drilled one unproductive well before abandoning operations.

¶6. In 1998, the GoE developed a new promotional document and re-examined the way they partner with oil and gas companies. Instead of retaining ownership and renting the blocks, the GoE and the exploration companies enter into production sharing agreements. Companies pay a signing bonus to the GoE (White Nile reportedly paid \$1 million upon signature) and community development benefits such

as schools, clinics and water projects. The GoE also utilizes joint study agreements. Under these agreements, the exploration companies collaborate with GoE to conduct initial exploration. To compensate for the cost of the studies, the exploration company gets preferential access to blocks.

AREAS OF EXPLORATION

7. There are currently 7 foreign companies with exploration blocks assigned to them in Ethiopia: White Nile (UK); Inter Global (US); Lundin (Swedish); Petronas (Malaysian); Pexco (Malaysian); South West Energy (Hong Kong registered, owned by an Ethiopian-American); and Afar Explorer (US). Currently in the Ogaden, there are the 8 Petronas blocks, 3 granted to South West Energy, 3 to Pexco and 4 to Lundin. 4 are open. There are no Chinese companies engaged in exploration.

18. A joint study agreement from 2000/2001 between GoE and Malaysian firm Petronas led to Petronas being granted the Gambella block in south eastern Ethiopia. Petronas has drilled one well in Gambella, which was unproductive. Petronas and GoE also collaborated on studies in the Ogaden, and Petronas has been granted 8 blocks, including the Calub and Hilala discoveries.

19. Exploration is also occurring in other parts of the country. Afar Exploration and Trans Global have been granted blocks in the Afar region. There are applications for 2 or 3 of the 9 blocks in the unexplored Abay Basin in Amhara region in the north-central area of the country. White Nile has been granted blocks in the extreme southwest. A joint study project with an undisclosed company is underway around Jimma.

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PROSPECTS FOR THE FUTURE

10. If oil or natural gas is extracted it would be for export only, according to Dr. Ketsela. Ethiopia is not a large consumer of petroleum due to its highly rural population. Few people in rural areas have cars, nor do they use motorized farm machinery. Ongoing projects in geothermal and hydroelectric energy are intended to reduce the country's dependence on diesel fuel for power generation, thus freeing any oil or gas for export and foreign exchange earning. Additionally, the GoE is undertaking several biofuel projects which may further reduce Ethiopia's need for petroleum.

Instability Still a Concern

11. Ketsela was reluctant to comment on the April 2007 attacks in the Ogaden in which 74 workers were killed by the insurgent Ogaden National Liberation Front (ONLF). He did say that it has had a dampening effect on new entrants into exploration, but companies are still interested. Furthermore, he said that the Chinese company Zhongyan Petroleum Exploration Bureau (ZPEB), which lost seven workers in the ONLF attack, worked in similarly unstable and dangerous conditions in other countries and questioned why they would not return to the Ogaden. He stated that the security conditions in the Ogaden are much improved since the attack. He also doubts recent press reports that an Iranian company, Oil Exploration Operation Company, (OEOC) would actually take over the work ZPEB had been performing for Petronas.

12. A US petroleum expert, Dr. Stephen Sears of Louisiana State University, informed econoff that the geology of Ethiopia has neither the big sedimentary basins that generate hydrocarbons in the Tertiary period, as found in West Africa, nor the carbonates deposited in the Cretaceous period, as found in the Middle East. Sears stated that he expects that some oil will be found in Ethiopia eventually, but the find will be small-scale resembling the size of finds in Pennsylvania or Michigan in the US.

13. COMMENT: Despite many years of exploration without any concrete

results, Ethiopia remains convinced that petroleum resources will eventually be proven in its territory. The country's geology does not appear to lend itself to the large-scale production of West Africa or the Middle East. However, with global petroleum prices at record levels, the potential of Ethiopian oil and gas is attracting smaller companies to seek out any possible find. Ethiopia's petroleum reserves lie, for the most part, in one of the least stable or secure regions, the Ogaden, and maintaining security is a key to future revenues for the GoE. Any oil or gas exports would have a positive impact on Ethiopia's economy, which is desperate for foreign exchange revenues. Even licensing and exploration are having a positive monetary impact through signing bonuses and other fees. Ethiopia is unlikely to become a petroleum powerhouse, but any proven discovery in the future will provide revenue to the GoE that may be used to spur overall economic development. END COMMENT

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